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Chapter 9 Counsel

IN THE UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF CALIFORNIA
FRESNO DIVISION

In re

TULARE LOCAL HEALTHCARE
DISTRICT, dba TULARE
REGIONAL MEDICAL CENTER,

Debtor.

Tax ID #: 94-6002897
Address: 869 N. Cherry St.
Tulare, CA 93274

CASE NO. 17-13797

Chapter 9

Date: January 25, 2018
Time: 9:30 a.m.
Place: 2500 Tulare Street
Fresno, CA 93721
Courtroom 13
Judge: Honorable René Lastreto II

FIRST CHAPTER 9 STATUS REPORT

TO THE HONORABLE RENE LASTRETO, UNITED STATES BANKRUPTCY JUDGE:

Tulare Local Healthcare District, dba Tulare Regional Medical Center ("District"), respectfully comes before the Court and submits this First Chapter 9 Status Report as follows:

I.
BACKGROUND

The District filed a Chapter 9 Petition on September 30, 2017 in the face of a threatened shutdown of the hospital by the District's former management and very dire financial circumstances.

The District is a public entity organized under the California Local Healthcare District Law and consists of a geographic district located in Western Tulare County where the District is the only provider of acute healthcare services for over 70,000

1 people. The District is governed by an elected board of five persons representing
2 specific districts.

3 The Court has set a Chapter 9 Status Conference for January 25, 2018 at 9:30
4 a.m.

5 The purpose of this report is to provide the Court with a report on activities that
6 have occurred since the petition date as well as to inform the Court as to expected
7 activities that will occur in the next phase of this reorganization.

8
9 **II.**
ELIGIBILITY

10 The Court previously fixed a bar date of January 11, 2018 for objections to
11 eligibility based on the District's Motion for an Entry of Order (1) Directing and
12 Approving Form of Notice of Commencement;(2) Setting Deadline for Filing Objections
13 to Petition; and (3) for Relief Under Chapter 9 (ECF No. 169).

14 No objections to eligibility were filed. At the Status Conference on January 25,
15 2018 the District will request entry of the Order for Relief. A copy of the proposed Order
16 is attached as Exhibit A.

17 **III.**
CLAIMS BAR DATE

18
19 The District has filed and served its Motion for Order Fixing Bar Date for Filing
20 Proofs of Claim (ECF No. 290). The last day for objections was January 11, 2018 and
21 no objections were filed.

22 At the Status Conference the District will request entry of the claims bar date as
23 shown by Exhibit B.

24
25 **IV.**
POST PETITION ACTIVITIES THROUGH JANUARY 5, 2018

26 The District has engaged in and/or accomplished the following since October 1,
27 2017 through January 12, 2018. These activities are not set out in order of importance
28 or chronology. These are highlights of such activities for said period:

- 1 • The District sought and obtained an Order rejecting the executory contract of
- 2 Health Care Conglomerate Associates, LLC ("HCCA"). The rejection of the
- 3 HCCA contract was effective at 5:00 p.m. on November 22, 2017. Beginning the
- 4 week following the Thanksgiving holiday the District regained control over various
- 5 bank accounts.
- 6 • Beginning November 23, 2017 the District sought and obtained control over what
- 7 it believes to be most of the assets and records of the District except for some
- 8 assets that are unaccounted for, some assets that are in the possession of
- 9 Southern Inyo Healthcare District, and some records believed to be in the
- 10 possession of the Tulare County District Attorney's office obtained by search
- 11 warrants.
- 12 • The District entered into agreements with Wipfli/HFS to provide management
- 13 services to the District including a CEO, CFO, CAO, Project Manager and other
- 14 key management personnel. The management team reports to the elected
- 15 board of directors.
- 16 • The District voluntarily and temporarily surrendered its license to the California
- 17 Department of Public Health.
- 18 • The District regained the ability to hire a skeleton crew of employees who are
- 19 now directly employed by the District.
- 20 • The District secured control over its facilities.
- 21 • The District has entered into a stipulation for the assumption of its various
- 22 insurance contracts with BETA, a joint powers authority, for insurances, and
- 23 Phoenix Health Systems regarding IT services.
- 24 • The District has commenced the process of evaluating about 1,100 contractual
- 25 arrangements to determine which of these agreements should be assumed and
- 26 which should be rejected.

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- 1 • The District has commenced the process of filing Motions to Reject Contracts
2 and Motions to Assume Contracts and NRRP as well as negotiation of new post-
3 petition agreements.
- 4 • The District, upon gaining control over electronic files, has filed an amended list
5 of creditors and obtained an Order prescribing notice to a limited sub-set of
6 creditors.
- 7 • The District has obtained an Order setting a hearing on its eligibility for relief
8 under Chapter 9. Pursuant to that Order the District has given notice to all
9 persons on its list of creditors and the District has published notice in Bond Buyer
10 and the Visalia Times Delta. The last date to object to eligibility was January 11,
11 2018 and there were no objections to eligibility.
- 12 • The District has obtained no fewer than 12 Orders pursuant to FRBP 2004. The
13 District is seeking documents by subpoena prior to conducting examinations.
- 14 • Post-petition the District learned that the prior management company entered
15 into an agreement and purported to sell assets of the District to Celtic Leasing for
16 \$3 million. The District is evaluating this transaction. Efforts to obtain
17 documentation from Celtic Leasing by subpoena are underway.
- 18 • The District has sought a claims bar date and there is a hearing on this Motion
19 set for January 25, 2018. No objection was filed by the deadline. See above.
- 20 • The District has commenced discussions with Wilmington Trust as the indenture
21 trustee for the District's revenue bonds. Post-petition payments on the revenue
22 bonds are current and have been made from reserves and payments on the
23 District's general obligation bonds of about \$85 million are current via ad valorem
24 property tax receipts.
- 25 • The District has figured out which lawsuits are pending either by or against the
26 District and discussions for resolution are underway as to some of those suits.
- 27 • The District has gained an understanding of the pending 14 medical malpractice
28 suits and has established open lines of communication with defense counsel.

- 1 • The District has commenced discussions with lenders to obtain credit sufficient to
- 2 enable the District to reopen the hospital and medical clinics to resume providing
- 3 services to the people of the District. Motions for authority to borrow are
- 4 expected to be filed in the near future. It is expected there will be at least two
- 5 financing motions. One will involve real property collateral and the other will be
- 6 receivables based.
- 7 • The District is in continuing discussions with the California Department of Public
- 8 Health regarding steps necessary for the reopening of the hospital and clinics.
- 9 • The District is evaluating its involvement in several civil lawsuits pending in
- 10 Federal and State Courts.
- 11 • The Court has appointed a healthcare ombudsman and there have been
- 12 discussions between the District and the ombudsman.
- 13 • The District has joined with the request of State Senator Jean Fuller for a state
- 14 audit as to the uses and misuses of bond funds since 2009 which audit will take
- 15 many months.

16 **V.**
PROFESSIONALS

17
18 The District is represented by the McCormick Barstow firm as district counsel and
19 by Walter Wilhelm Law Group as Chapter 9 counsel. The District has engaged bond
20 counsel to advise it with respect to the revenue bonds and general obligation
21 bonds. The District anticipates engaging a malpractice specialist to commence certain
22 actions for recovery of damages. The District has resumed working with pre-petition
23 defense counsel on the pending malpractice actions.

24
25 **VI.**
SOUTHERN INYO HEALTH CARE DISTRICT

26 The District has filed a Cost of Administration Claim in the Southern Inyo Health
27 Care District ("SIHCD") Chapter 9 case pending before the Honorable Fredrick
28 Clement. In connection with such asserted claim, the District has requested voluntary

1 compliance from SIHCD for the provision of documents and information as to monies,
2 supplies and equipment going from the District to SIHCD. Voluntary compliance was
3 not achieved and the District has served a Subpoena pursuant to FRBP 2004 seeking
4 information. The District anticipates that it will be involved in the confirmation process
5 involving the Plan of Adjustment to be proposed by SIHCD.

6
7 **VII.**
8 **HEALTH CARE CONGLOMERATE ASSOCIATES, LLC**

9 The District anticipates that much of the activity in this Chapter 9 case may
10 involve disputes between and among the District, HCCA and principals of
11 HCCA. Toward this end, the District has removed a breach of contract suit filed by
12 HCCA in Los Angeles County Superior Court. The District has filed a Counterclaim. An
13 Adversary Proceeding Status Conference has been set for January 31, 2018 at 1:30
14 p.m. Objections are pending by HCCA.

15 The District has made informal and formal requests on HCCA to voluntarily
16 reconvey a disputed deed of trust HCCA recorded against certain of the real property
17 assets of the District on September 28, 2018. A complaint to avoid the deed of trust will
18 be filed unless voluntarily reconveyed.

19 The District has received a notice from HCCA by which HCCA asserts a secured
20 interest in certain receivables.

21 Efforts to cooperate between the District and HCCA are being made by both
22 sides.

23 **VIII.**
24 **NEXT PHASE**

25 So that the Court might have a "road map" as to the next phase in this Chapter 9
26 case, the following items are expected to be commenced or continued over the next six
27 months.

- 28 • Upon being authorized to borrow the District will reopen the hospital and clinics.

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- 1 • The District will file one or more legal malpractice lawsuits seeking recovery of
- 2 damages.
- 3 • The District will seek an administrative claims bar date.
- 4 • The District will continue with its evaluation of contracts to determine the
- 5 appropriate treatment of contracts and unexpired leases.
- 6 • The District will be involved in the Chapter 9 confirmation of plan involving
- 7 SKHCD and the administrative expense claim.
- 8 • The District will be seeking orders authorizing two or more borrowings to provide
- 9 funding to reopen the hospital and clinics.
- 10 • The District will seek insurance premium financing to assure the continuation of
- 11 all needed insurances.
- 12 • The District will continue its evaluation of the transaction involving Celtic Leasing.
- 13 • The District anticipates that it will settle one or more of the pending non-medical
- 14 malpractice lawsuits.
- 15 • The District will evaluate its position with respect to the employment and payment
- 16 of counsel for a committee of unsecured creditors.
- 17 • The District will evaluate issues related to certain potential clouds on title of its
- 18 real property assets.
- 19 • The District will continue with the assembly of information to enable it to evaluate
- 20 bringing avoidance claims under Sections 547, 548 and 549.
- 21 • The District will continue its work on a Plan of Adjustment.

IX.
PLAN OF ADJUSTMENT

24 The District has commenced modeling financial projections relating to its Plan of
25 Adjustment. While at a very early stage in this Chapter 9 case, preliminary indications
26 are that the District, once reopened, and once a "normal" census is achieved, the
27 District will be able to commence drafting a Chapter 9 Plan of Adjustment to provide for
28 payment of creditor claims over a period of time.

1 The overriding objective and concern of the District is to reopen so it can serve
2 the healthcare needs of the community. The District is the only acute care facility for
3 many miles around Tulare. The closure of the hospital is creating great pressure due to
4 the flu epidemic and the impact on area hospitals having to pick up the slack.

5
6 **X.**
FURTHER STATUS CONFERENCE

7 The District suggests to the Court that it would be appropriate to set a further
8 Chapter 9 Status Conference in about six months so that the District can make a further
9 report to the Court on its reorganization and progress toward a Plan of Adjustment.

10
11 **XI.**
CONCLUSION


12 WHEREFORE, Tulare Local Healthcare District prays that the Court be apprised
13 accordingly and seeks such relief as is just and proper.

14 Respectfully submitted,

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16 Dated: January 16, 2018

WALTER WILHELM LAW GROUP,
a Professional Corporation

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19 By:


Riley C. Walter, Attorneys for Debtor,
Tulare Local Healthcare District, dba
Tulare Regional Medical Center